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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 7036
INFO RHEFDIA/DIA WASHINGTON DC
RHEFSNG/HMSNG WASHINGTON DC
RHEFHOT/HOTR WASHINGTON DC//USDAO ISLAMABAD PK//
RUWSMXI/AMC INTEL CEN SCOTT AFB IL//INO/J2-J//
RUEPVAA/CDR JSOC FT BRAGG NC//J2/HSE//
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2-JCH/HSE//
RHLFABN/CDR USESUCOM ABNCP VAIHINGEN GE//ECJ2/ECJ3/ECJ5-A//
RHMFISS/CDR USSOCOM MACDILL AFB FL//SOJ2/HSE//
RHMFIUU/CDR USTRANSCOM TCJ2 SCOTT AFB IL
RHMFISS/CDRUSAREUR HEIDELBERG GE//AEAGB-IAD//
RUEAIIA/CIA WASHINGTON DC//DDI/OEA//
RUEPVAA/COMJSOC FT BRAGG NC
RHMFIUU/COMSOCCENT MACDILL AFB FL//SOCJ2/HSE//
RHEFDIA/DIA WASHINGTON DC//DHO-3//
RHEFDIA/DIA WASHINGTON DC//MIO-4//
RUETIAA/DIRNSA FT GEORGE G MEADE MD//M112/S2132HT//
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK
RUEKJCS/JOINT STAFF WASHINGTON DC//J2/J5-EUR//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DEKA/FCTP//
RUZFNAI/NASIC WRIGHT PATTERSON AFB OH//DXOA/TAAO//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG-CE-CM/IANG-GS-AA//
RHEFNGB/NGIC INTEL OPS CHARLOTTESVILLE VA//IANG/CE/CECM//
RUCXONI/ONI WASHINGTON DC//32/211//
RUEALGX/SAF WASHINGTON DC
RUEKJCS/SECDEF WASHINGTON DC//USDP-ISA-ADMIN//
RULWAAM/STRATCOM IDHS-90 OFFUTT AFB NE//J22123//
RUEPGAA/US SURVEY DIV SHAPE BE
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL
RUEHIL/USDAO ISLAMABAD PK
RUCQSAB/USSOCOM INTEL MACDILL AFB FL
RUEHLO/AMEMBASSY LONDON 2241
RUEHNE/AMEMBASSY NEW DELHI 6012
RUEHBUL/AMEMBASSY KABUL 1402
RUEHLH/AMCONSUL LAHORE 8411
RUEHKP/AMCONSUL KARACHI 2811
RUEHPW/AMCONSUL PESHAWAR 7471
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 04 ISLAMABAD 000178

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SUBJ: BI-WEEKLY REPORT ON ECONOMIC ISSUES, January 6, 2010

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TOP STORIES
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11. (SBU) Electricity tariff increases by 13.6 percent. On December 31, the Daily Times reported that the Ministry of Water and Power would enforce the change in power prices starting January 1. This GOP initiative is in line with the staggered increase of power tariffs agreed to with the IMF, World Bank, and Asian Development Bank. Business Recorder reported on January 5 that members of the local business community expect negative economic repercussions stemming from this decision, which coincides with an 18 percent increase in gas prices.

(Comment: Public response to the tariff increase has been muted so far, perhaps tempered by Ministry of Water and Power leaks of the increase in advance of the notification.)

¶2. (SBU) Pakistan passes IMF review receiving \$1.2 billion in IMF funds. On December 24, Business Recorder reported that the Executive Board of the International Monetary Fund (IMF) completed the third review of Pakistan's economic performance. Satisfied with the GOP's efforts to improve its economic environment, the IMF approved the disbursement of \$1.2 billion, representing the fourth tranche of Pakistan's IMF loan, and bringing total disbursements under the Pakistan's IMF Stand-By Arrangement to \$6.54 billion. The IMF disbursed the monies on December 28.

¶3. (SBU) Annual reservoir maintenance affecting local power supply. On December 28, Business Recorder reported that water releases from major reservoirs had all but stopped, slashing hydroelectric power generation by at least 1,200 megawatts and exacerbating the local power shortage problem. This routine cut in water releases, expected to end on January 30, helps to facilitate canal maintenance, while saving reservoir water for crop irrigation in the spring. (Comment: According to our contacts, blackouts in Punjab are now lasting six to eight hours a day in the cities and as much as 12 to 14 hours a day in the rural areas. Natural gas rationing has compounded the problem, as thermal generation has not been sufficient to fill the shortfall of hydropower. The seasonal load shedding comes at an unfortunate time given the January 1 increase in the electricity tariff.)

¶4. (SBU) The Karachi Electric Supply Company (KESC) to set up Thar's first coal power plant. On December 16, the Business Day reported

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that KESC signed a Memorandum of Understanding (MoU) with the UK-based company Oracle Coalfields, to set up the first major coal-fired power plant fueled by coal mined from Thar coalfields in Sindh. According to the MoU, Oracle will own and operate the mine, supplying coal to the KESC-run power plant. (Comment: Contacts at KESC indicated that this agreement is still in its preliminary stages, adding that they are still trying to determine exactly how they can go about exploiting the Thar coalfields.)

¶5. (SBU) Current account deficit down to \$1.35 billion. On December 18, Dawn reported that Pakistan's current account deficit fell to \$1.359 billion during the first five months of FY10, compared to \$7.318 billion during the same period in FY09. This 18 percent drop is attributed to a smaller trade deficit, increased remittances, and inflows from the IMF and donors. (Comment: This drop in the current account deficit demonstrates recent Pakistani success in getting its macroeconomic house in order. However, contacts in the banking sector have suggested that the GOP should not "overvalue" the situation, which could easily change should oil prices increase or Pakistan's exports continue to decline.)

¶6. (SBU) The Ministry of Petroleum and Natural Resources increases gas prices by 18 percent. On December 22 Business Recorder reported that the Ministry of Petroleum and Natural Resources had presented a proposal to the Prime Minister to increase gas prices, including the price of Compressed Natural Gas (CNG), by 18 percent for all consumers starting early January. Representatives from the Sui Northern Gas Pipeline and Sui Southern Gas Company gas utility companies indicated that this plan would generate over \$2.9 billion in needed revenue. Local industry expressed serious concern over the proposal, emphasizing that they were already facing difficulties because of the increasing cost of inputs. The News reported on December 30 that CNG stations were planning to strike to oppose the possible CNG price hike. The Chairman of the All Pakistan CNG Association said 2,912 of Pakistan's 3,006 CNG filling stations would remain closed for 3-4 days, adding that if the GOP went ahead with the price rise, the Association would challenge the tariff hike in the courts. On January 1, The News confirmed that the Prime Minister approved the proposed tariff hike, which took effect that same day; however, following discussions with the Minister of Petroleum and Natural Resources, the CNG association called off their proposed strike. (Comment: This tariff hike is a positive sign that the GOP is serious about reducing subsidies and

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rationalizing energy pricing and consumption. Contacts at the All Pakistan CNG Association said that they would not contest the tariff raise if CNG prices remained 40 percent lower than petrol prices.)

17. (SBU) The Competition Commission of Pakistan (CCP) fines local LPG producer and marketing association \$3.7 million for collusive behavior. On December 17, Business Recorder reported that following an extensive investigation the CCP had found that the Jamshoro Joint Venture Limited (JJVL), the country's largest LPG producer, and the Liquefied Petroleum Gas Association of Pakistan (LPGAP), the largest association of local LPG marketing companies, were involved in price fixing. According to the report, JJVL and LPGAP were intentionally manipulating the supply and the price of locally produced LPG in order to push LPG importers, such as Progas, out of the market. JJVL and LPGAP are currently contesting the \$3.7 million in fines imposed by the CCP in the Supreme Court. (Comment: Since its inception in 2007, the CCP has fought to promote a competitive environment in Pakistan and to protect consumer interests by regulating monopolies and combating collusive practices. It has filed 76 cases against local businesses, including alleged cartels in the sugar, banking and cement industries.)

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BANKING & FINANCE
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18. (SBU) State Bank of Pakistan (SBP) Quarterly Report shows massive rise in Non Performing Loans (NPL). On December 24, Business Recorder reported that during the quarter ending September 30, the banking system experienced slow growth and a massive increase in NPLs, mainly due to the overall slowdown in local economic activity. According to the SBP's Quarterly Performance report, NPLs increased from \$4.79 billion in the quarter ending June 2009 to \$5.08 billion in the quarter ending September 2009. (Comment: Despite the growth of NPLs, the banks remain well-capitalized as the risk-based capital adequacy ratio of all banks operating in country improved to 14.3 percent during this period.)

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STOCK MARKET
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19. (SBU) Karachi Stock Exchange (KSE). According to Business Recorder, the KSE 100 Index closed the year on December 31 at

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9,386.92. This represents a 0.3 percent increase from the previous week's close. KSE was up nearly 53 percent in 2009. Overall market capitalization decreased slightly from \$32.27 billion to \$32.15 billion, with a net foreign portfolio investment inflow of \$4.11 million. (Comment: The market saw a short week of trading due to a local holiday and unexpected closures following the December 28 bombing and arson in Karachi. Volumes were low during the week as investors remained concerned about the economic impact of the Karachi attack, and the ongoing security problems in the country.)

10. (SBU) Lahore Stock Exchange (LSE). Business Recorder reported that the LSE index climbed 5.5 percent in December shrugging off fears of turmoil after the National Reconciliation Ordinance expired. The volume of shares traded over the month of December fluctuated, with an equal number of shares registering gains and losses, and market capitalization was up by 4.3 percent.

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